**Internal Control – Self-Assessment Program (ICSAP) - Overview**
**FIACCT 20-00.00**
**Effective: DRAFT**
**Revised:**
**Reviewed:**

## Purpose

This policy outlines the requirements for state agencies to implement, assess, and maintain good internal controls over state operations, financial reporting, and compliance.

## Policy

A. Agencies must establish and maintain sound internal controls based on the five components of internal control. (See the Background section of this policy.)
B. Agencies must establish and maintain proper segregation of duties. (See the Background section of this policy.)
C. Agencies must participate in the Internal Control Self-Assessment Program as described in this policy.

## Background

There has been recent pressure on governments to establish enhanced internal control frameworks similar to those used currently by U.S. public company boards, management and public accounting firms as a result of the passing of the Sarbanes Oxley Act of 2002. In addition, auditing standards have been revised to emphasize that management is responsible for internal control, and not the external auditors.

The Director of the Division of Finance is authorized and required by state statute to do the following:

- "provide for the accounting control of funds" UC 63A-3-103(1)(b);
- "prescribe other fiscal functions required by law or under the constitutional authority of the governor to transact all executive business for the state." UC 63A-3-103(1)(g);
- "exercise accounting control over all state departments and agencies." UC 63A-3-203(1)(a);
- "maintain a financial control system according to generally accepted accounting principles." UC 63A-3-204(1)(a).

In light of the changes in auditing standards and to ensure compliance with the state statutes listed above, the State Division of Finance has implemented an Internal Control Self-Assessment Program (ICSAP) to help ensure that agencies develop and maintain a good system of internal control.
The State Division of Finance has participated with the National Association of State Comptrollers (NASC) in developing internal control questionnaires (ICQs) that can be used by all states as an aid to help implement and develop an effective internal control system and self-assessment program. Finance has modified some of these ICQs to better fit the needs of Utah state agencies. These ICQs are the basis for the Internal Control Self-Assessment Program (ICSAP).

**Benefits of ICSAP**

The benefits of this new program include the following:

- Reducing:
    a. The risk of fraud and errors in financial statements and reports,
    b. The risk of loss, misuse, or waste of taxpayer dollars or other assets,
    c. The risk of noncompliance with state and federal laws and state policies and procedures,
    d. Embarrassment and repercussions that can come from related events.
- A process to assist each agency in accomplishing their internal control responsibilities.
- A designated contact within the State Division of Finance who has a background in internal control.

- A designated agency contact that has a background in internal controls that can coordinate and work with the State Division of Finance.
- A process to assist the State's central management in assessing the condition of internal control systems in agencies.

**Responsibilities of State Agency Management**

Management of each state agency is responsible for establishing, monitoring, and maintaining internal control. The effectiveness of internal control depends on how well the five components of Internal Control, discussed below, are implemented at each agency. The State's internal control self-assessment program is designed to help both state and agency management determine whether an effective internal control system has been designed and deployed at the agency level.

**What is Internal Control?**

According to COSO[1], internal control is broadly defined as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

**Components of Internal Control[2]**

Internal control consists of five interrelated components. These are derived from the way management runs operations, and are integrated with the management process. These components represent what is needed to achieve the objectives listed above. When looking at any one category – the effectiveness and efficiency of operations, for instance – all five components must be present and functioning effectively to conclude that internal control over operations is effective.

The following is a brief overview of these five components. Finance will conduct training and issue an Internal Control Guide that will give more detail in this area.

1. **Control Environment**
   The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. It includes factors such as the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by management.
2. **Risk Assessment**
   Every entity faces a variety of risks from external and internal sources that must be assessed. Risk assessment is the identification and analysis of relevant risks to achievement of management objectives, forming a basis for determining how the risks should be managed. Examples of these risks include new employees, new information systems and technology, and new organization structures.
3. **Control Activities**
   Control activities are the policies and procedures that help ensure management directives are carried out. They help to

[1] COSO is a voluntary private sector organization dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance. COSO is jointly sponsored by the American Accounting Association, the American Institute of Certified Public Accountants, Financial Executives International, the Institute of Internal Auditors, and the Institute of Management Accountants.

[2] Source: COSO

ensure that necessary actions are taken to address risks to achievement of the entity's objectives. They include a range of activities as diverse as approvals, verifications, reconciliations, security of assets and segregation of duties. (More information on segregation of duties is included below in this policy.)

4. **Information and Communication**
   Pertinent information must be identified, captured in information and accounting systems and communicated in a form and timeframe that enable people to carry out their responsibilities. Effective communication also must occur in a broader sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously.
5. **Monitoring**
   Internal control systems need to be monitored - a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two.

**Segregation of Duties**

Segregation of duties is one of the most important features of effective internal control and is one of the Control Activities discussed in the Components of Internal Control section above. The fundamental premise of segregated duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same action. These are called incompatible duties when performed by the same individual. Examples of incompatible duties include situations where the same individual (or small group of people) is responsible for:

a) Managing both the operation of and record keeping for the same activity.
b) Managing custodial activities and record keeping for the same assets.
c) Authorizing transactions and managing the custody or disposal of the related assets or records.

Finance will conduct training and issue an Internal Control Guide that will give more detail on proper segregation of duties.

## Procedures

| Responsibility | Action |
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| **Finance** | Prepare and issue Internal Control Questionnaires to be used by state agencies to assess their internal controls. |
| | Determine which ICQs are required and which are optional. |
| | Set deadlines for agencies to complete the ICQs and corrective action plans and return them to the Division of Finance and (if applicable) their Internal Auditor. |
| | Follow up with agencies to ensure ICQs are completed, problems noted are addressed in corrective action plans, and agency management has signed-off on the work performed. |
| | Provide internal control training and guidance. Have a staff member available for consultation on internal control issues and questions. |
| **Agency ACT** | The ACT (Agency Coordinating Team) lead member for each agency will be the main contact for State Finance for the Internal Control Self-Assessment Program, unless an agency designates an alternative contact person. If an alternate is designated, they will need to attend the monthly ACT meetings to ensure that they receive information on the program. |
| **Agency Chief Financial Officer (CFO)** | The agency's chief financial officer (Finance Director or Comptroller) shall determine how many of the required ICQs shall be completed. For example, the Cash Receipts ICQ should be completed for each separate receipting system and/or location in the agency. |
| | The agency's chief financial officer shall determine which of the optional ICQs will be completed. For example: Davis-Bacon, Federal Grant Administration, Investments. |

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| **Agency** | Thoroughly complete the ICQs, following the instructions on each ICQ. |
| | Ensure that each "No" response is fully explained on the ICQ including identifying any compensating controls and any needed corrective action plans. |
| **Agency CFO** | The agency's top financial officer will review and approve each of the completed ICQs including any related corrective action plans. |
| **Agency Head/ Executive Director** | The agency head/executive director will also sign each ICQ as an indication that they are aware of the work that was done and of any problems or corrective action needed. |
| **Agency ACT** | Submit the completed ICQs and corrective action plans, signed by both the agency top financial officer and agency head, to the State Division of Finance by the required deadlines. |